

November 18, 2003

Backgrounder

Disadvantaged Business Enterprise Program

The Department's DBE Program

The U.S. Department of Transportation (DOT) is responsible for ensuring that firms competing for federally assisted DOT contracts and grants are not disadvantaged by discrimination. Through its disadvantaged business enterprise (DBE) program, DOT fosters equal opportunity in transportation contracting for small businesses owned and controlled by socially and economically disadvantaged individuals.

Among other things, DOT DBE regulations require recipients of DOT Federal financial assistance, such as state and local transportation agencies, to establish goals for the participation of disadvantaged entrepreneurs and certify the eligibility of DBE firms to participate in their DOT-assisted highway, transit, and airport construction and improvement contracts. The level of DBE subcontracting goals may vary from their approved DBE goal; however, at the end of the year the amount of contract/subcontract awards to DBEs should be consistent with the overall goal.

<http://osdbuweb.dot.gov/business/mp/miphtml23.html#TOC65>.

DOT, through FAA, also oversees the airport concessions portion of the DBE program. This includes businesses such as retail shops and kiosks, restaurants, car rental agencies, management contractors, and firms supplying goods or services to them. As a condition of receiving FAA Airport Improvement Program funding, airports must contract a portion of their concessions to DBEs. <http://osdbuweb.dot.gov/business/dbe/dbeconnc.html>

DOT administers its DBE program through its Operating Administrations, such as the Federal Highway Administration (FHWA), the Federal Aviation Administration (FAA), and the Federal Transit Administration (FTA). DOT Operating Administrations develop program policies, instructions, and procedures; reviews and approves states' and transit authorities' DBE program plans; provides technical assistance and training; and carry out oversight of local agencies.

OIG's Role

The Department's Office of Inspector General (OIG) investigates contract, procurement, and grant fraud in DOT programs and operations, including DBE cases.

“Fraud involving the DBE program for minority and women contractors who are used as ‘false-front’ companies is an area with serious enforcement and compliance problems that appears to be nationwide in scope and requires more attention,” DOT Inspector General Kenneth M. Mead said in testimony before the House Transportation and Infrastructure Committee on

What’s a DBE?

A DBE is a small, independent business that is at least 51 percent owned by one or more socially and economically disadvantaged individuals. At least one of these owners must control the firm’s management and daily business operations, and the owners must share in the risks and profits commensurate with their ownership interest.

July 22, 2003. “To her credit, (FHWA Administrator Mary) Peters has initiated several efforts to combat DBE fraud, such as providing state Department of Transportation staff with DBE fraud training material, establishing a website for the exchange of DBE program information and successful practices in deterring this kind of fraud, and coordinating DBE reviews with my office,” the IG testified.

http://www.oig.dot.gov/item_details.php?item=1132

Investigative Statistics

As of November 1, 2003, OIG had 40 ongoing DBE investigations in 19 states, involving contractors allegedly engaged in defrauding DOT’s DBE program. From fiscal year 1999 to November 1, 2003, OIG’s DBE fraud investigations have resulted in 40 indictments, 29 convictions, and \$10.7 million in fines and other monetary recoveries.

DBE cases also comprise a growing percentage of the total number of OIG contract and grant fraud cases. In FY 2003, the DBE caseload constituted 29 percent of OIG’s total contract and grant fraud caseload. Since 1999, DBE cases have totaled 20 percent of OIG’s contract fraud caseload. For additional statistics, see Appendix B.

Types of DBE Fraud

Some of the issues OIG special agents commonly encounter during DBE investigations include:

- Individuals and companies applying for DBE certification submit misleading or false information that is not easily detectable.
- Inconsistent interpretation of the regulations by the certifying entity (for example, an airport authority) and the lack of uniformity in certification process among agencies receiving DOT funds, enabling some companies and individuals who do not meet DBE requirements to obtain certification.
- DBEs that were legitimately certified at one time may fail to meet eligibility requirements in subsequent years and are not decertified in an expeditious manner.

OIG Programmatic Recommendations

As a result of two recent investigations, OIG issued recommendations to DOT to improve oversight of its DBE programs. On Nov. 7, 2003, OIG issued a report of investigation concerning DBE programs in New Orleans. As stated in that report, “based on our observations in this and other cases, DOT’s Operating Administrations, FAA in particular, need to strengthen the effectiveness of their stewardship of the DBE program beyond the status quo, which largely consists of limited, historical documentary reviews conducted periodically within local agency DBE program offices.”

OIG Recommendation: Improve Agency Oversight

OIG recommended that FAA and FTA oversight include aspects of the methodology utilized in the New Orleans investigation, including site visits, DBE and prime contractor interviews, detailed certification file reviews, and work-site surveillance. We also recommended that FAA and FTA perform their own up-front examination of DBE certification application packages (that is, those pending approval by local agencies).

OIG Recommendation: Income Limits for Airport Concession Program

A major difference between DBEs that participate in DOT-funded programs such as highway, transit, and airport construction projects and those which operate airport concessions is the income limit. The regulations for DBEs involved in federally funded transportation projects set a \$750,000 personal net worth limit for the owner of a DBE (excluding equity in his or her primary residence and ownership in the DBE). Because airport concession agreements generally involve high rent payments to the airport, the regulations covering airport concession DBEs currently impose no personal net worth limit for the owner of a DBE. Source: SNPRM.

<http://osdbuweb.dot.gov/business/dbe/dbeconnc.html>.

In two major DBE-related cases investigated by OIG, a significant issue was whether a wealthy individual could be certified as an airport concession DBE. On Sept. 5, 2003, we issued a report of investigation concerning the awarding of a concession to operate duty-free shops at Washington Dulles International Airport. In that case, in which a company that lost the contract alleged that the winner was violating DBE regulations because its minority partner was wealthy, we made recommendations similar to those we make in this case. http://www.oig.dot.gov/item_details.php?item=1162

We recommended that:

- The DBE regulations covering airport concessions need to prescribe a personal net worth limit for the owner of a DBE; there currently is no income cap. While we are not proposing any specific cap, a limitation on personal net worth would serve as an appropriate threshold determinant in establishing whether an individual is economically disadvantaged.

- The regulations should set forth clear, objective, and tangible criteria for rebutting the presumption of economic disadvantage.
- Consideration should be given to establishing terms for DBE firms and their owners to ultimately graduate from DBE eligibility.

In the report, OIG did not recommend specific income limits for the airport concession DBE program. While we believe personal net worth limits promote fairness of opportunity for those persons who, per statute, are considered “socially and economically disadvantaged, and thus have recommended that the Department set a cap for the owners of airport concession DBEs, it is not our role to assess the applicability of such a requirement for non-DOT funded state and local DBE programs.”

“However, as long as incongruity regarding DBE eligibility exists between the DOT DBE regulation and state/local standards, the potential for perceptions that certain programs are disparate in treatment, or otherwise unfair, will continue.”

In 2000, the Department initiated a rulemaking process to revise the DOT DBE regulations applicable to airport concession regulations. In the rulemaking, which remains ongoing at present, the Department proposed to institute a personal net worth limit for airport concession DBEs. The Department is currently considering comments on what the amount of the cap should be.

<http://osdbuweb.dot.gov/business/dbe/dbeconnc.html>

OIG Recommendation: Debarment of Contractors Convicted of DBE Fraud

In testimony before the House Budget Committee on July 9, 2003, the Inspector General stated, “At our recommendation, the Department has proposed language in its highway reauthorization proposal to make debarment mandatory and final when a contractor is convicted of [DBE] fraud.” http://www.oig.dot.gov/item_details.php?item=1129

OIG has been working with FHWA, FAA, and FTA to encourage their use of contract debarment against fraudulent DBE firms and individuals in the absence of criminal indictments or conviction. A typical debarment removes a contractor from contract and grant eligibility for up to 3 years.

Existing regulations allow DOT Operating Administrations wide discretion in determining whether or not to debar convicted contractors. Contractors who have been convicted of defrauding Federal-aid projects are allowed to appeal debarments at any time. For example, in 2001, three major construction companies in the New York City area, co-owned by the Scalamandre brothers, pleaded guilty to felony fraud charges involving payoffs to organized crime to influence labor unions on FHWA-funded road projects.

Because debarment is not mandatory under the current Federal-aid rules, it took over 6 months after conviction to obtain a 3-year debarment, which took effect on April 12, 2002. The companies have appealed to any funds recovered in successful fraud prosecutions.

Fines and recoveries from Federal judgments must be returned to the Federal Treasury unless a judge determines otherwise or the law changes to allow states to share in Federal fines and recoveries. As part of their plea agreement, the Scalamandres paid a \$5 million forfeiture of the money they obtained illegally to the Government. The sum was subsequently divided between the New York City Department of Investigation and the Federal agencies that worked on the case. The New York City Department of Investigation received \$1 million, which it is using to purchase equipment and other investigative tools.

In July 2003, the Inspector General testified: “States are the first line of defense in preventing and detecting fraud in transportation programs, and more needs to be done to strengthen state oversight. Since the states’ programs are damaged by the fraud, sharing in the recoveries would help them restore their programs and provide support for further fraud deterrence and detection efforts.”

http://www.oig.dot.gov/item_details.php?item=1132

OIG’s Contract and Grant Fraud Program

Investigating DBE fraud has always been part of OIG’s efforts to protect transportation-related programs from fraud, waste, and abuse. In 1999, then-Attorney General Janet Reno issued a policy statement urging the Federal Government to prosecute small and disadvantaged business fraud.

This strong signal from the Department of Justice closely followed passage of the Transportation Equity Act for the 21st Century (TEA-21) and the Aviation Investment

and Reform Act for the 21st Century (AIR-21), which provided record levels of funding to DOT’s highway, transit, and airport construction programs. TEA-21 infused \$218 billion into the economy to rebuild the nation’s surface transportation infrastructure, and AIR-21 provided \$39.7 billion from FY 2001-2003 for the nation’s aviation systems.

In response to the Attorney General’s policy directive and passage of the two acts, OIG began a contract and grant fraud initiative in FY 1999 to intensify its efforts.

Who’s disadvantaged?

The Small Business Act defines socially disadvantaged as “...those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.”

Economically disadvantaged is defined as “...those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged.” Further, the Small Business Act requires contractors to presume that socially disadvantaged individuals include U.S. citizens (or persons with permanent resident status) who are African American, Hispanic American, Native American, Subcontinent Asian

As Inspector General Mead stated in his

American, and Asian-Pacific American.

remarks at the Second National Conference on Fraud in Highway Construction and Public Transportation in May 2002, these transportation projects involve “an enormous, unprecedented amount of money. Wherever there is that kind of money, the watchword is be vigilant - be on the outlook for fraud and abuse.”

http://www.oig.dot.gov/item_details.php?item=786

OIG Outreach

Concurrently with the increased investigative activity, OIG has embarked on a program to educate state, local, and other Federal officials to recognize and respond to the signs of DBE fraud. From FY 1999 through the first 6 months of FY 2003, OIG briefed 12,000 officials in 38 states and the District of Columbia, including 670 law enforcement officers.

The educational effort included two national fraud prevention conferences that OIG co-sponsored—in Atlanta, GA in 2000 and St. Louis, MO in 2002. The St. Louis conference drew 300 participants from 46 states who attended to heighten their awareness of fraud and learn best practices to combat it.

Common DBE Schemes

DBE fraud “often involves prime contractors who conspire with sham ‘false front’ DBE firms to fraudulently meet required DBE participation criteria in order to obtain contracts. In such cases,

DBEs either do not perform the work or yield total control of personnel and operations to the prime contractors. This crime defrauds the integrity of the DBE program and harms legitimate DBEs who abide by the law,” the IG said in testimony before the House Transportation-Treasury Appropriations Subcommittee in May 2003.

http://www.oig.dot.gov/show_pdf.php?id=1089

The most common DBE schemes include:

- **Front or sham companies:** A front company is a firm established to illegally take advantage of the DBE program by falsely represents ownership and control by a person who is eligible to participate in the DBE program.

Who administers the DOT program?

DOT’s DBE program is administered by the states and locales that receive financial assistance from the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and Federal Aviation Administration (FAA). DOT regulations require state and local transportation agencies that receive DOT financial assistance to establish goals for the participation of disadvantaged entrepreneurs and certify the eligibility of DBE firms to participate in their DOT-assisted contracts. (49 CFR, Part 26)

DOT regulations limit participation in the highway, transit, and airport construction DBE programs to those companies whose owners have a personal net worth limit of no more than \$750,000.

Under current regulations, there is no income limit for owners of companies seeking certification as DBEs for airport concession contracts. This makes it possible for wealthy individuals to attain certification as a DBE for an airport concession contract if they are a member of a designated group based on social disadvantage. (49 CFR Part 23.)

- **Pass-through or conduit companies:** In this scheme, the primary contractor presents documentation that a DBE firm performed work they were hired to do when, in fact, they did not.
- **False eligibility:** To win a contract, the firm or individual misrepresents their profits or other criteria required to qualify them as a DBE.

Front Company: Case Example 1

Florida Companies, Owners Fined \$123,000 for DBE Fraud

Two Florida companies and four defendants were fined a combined \$123,000 by a U.S. District Court judge in Tampa, FL, for defrauding the U.S. Government in order to obtain a \$254,000 subcontract that was counted toward the project's DBE goal.

Tarand Transport, Inc. of Land O'Lakes, FL, and J.D. Miller & Sons of Thonotosassa, FL, had been paying a \$500-a-month kickback to Howard L. Glover of Mulberry, FL, for allowing them to position his business, H.J. Trucking as a minority front company. With the use of the front company, Tarand and Miller fraudulently won work set aside for a disadvantaged minority business on a state subcontract funded by the Federal Highway Administration. Glover did not perform any of the work, which involved hauling material for an I-4 highway construction project in Hillsborough County, FL near Tampa from 1996 to 1998; rather, it was done by Tarand Transport and J.D. Miller & Sons.

On December 7, 2001, Tarand Transport was fined \$60,000, and company owners Randy W. and Tammy J. Blankenship received fines of \$12,500 each and 28-month jail terms. Glover was sentenced to 14 months in prison and fined \$5,000. http://www.oig.dot.gov/item_details.php?item=654

A U.S. District Court judge in Tampa fined J.D. Miller & Sons, Inc., \$30,000 on September 20, 2001 and placed the company on probation for 5 years, making it ineligible for Federal-contract work during the term of the probation. Company Vice President John Miller, who cooperated with authorities and had pleaded guilty on May 25, 2001 to fraud charges, was sentenced to 60 months probation and fined \$3,000. OIG investigated this case with the Florida Department of Transportation's OIG and the Florida Department of Law Enforcement.

http://www.oig.dot.gov/item_details.php?item=579

Front Company: Case Example 2

NY Construction Company Co-Owners Ordered to Forfeit \$5 Million

January 30, 2002

Guiseppe Scalamandre and his brother Fortunato Scalamandre, co-owners of several major construction companies that performed work for DOT grantees in the New York City area, were ordered by a U.S. District Court judge in Central Islip, NY, to forfeit \$5 million for their role in a kickback scam. The projects included rehabilitation of the

Brighton Beach subway line contracted through the New York City Transit Authority; and construction on the Northernstate & Meadowbrook Parkway Interchange, Ronkonkoma Station of the Long Island Railroad, and the Long Island Expressway & Seaford Oyster Bay Expressway, all let through the New York State DOT.

The brothers pleaded guilty on November 14, 2001, to charges related to their role in a tax-fraud scheme in which they issued nearly \$1 million in corporate checks to their minority business subcontractors to pay fraudulent invoices generated at the Scalamandres' direction. The checks were cashed and the funds returned to the Scalamandres for use in paying organized crime to influence unions. The case was investigated by the Long Island Construction Fraud Task Force, which includes OIG. http://www.oig.dot.gov/item_details.php?item=679

In a follow-up, the Federal Highway Administration debarred the Scalamandre brothers and three construction firms they own on June 7, 2003 for a three years. The firms are Peter Scalamandre & Sons, Inc., Scalco Construction Corp., and Sea Crest Construction Corp., all of Freeport, NY. http://www.oig.dot.gov/item_details.php?item=817

In the same case, the earlier guilty pleas of two minority business enterprises were made public on November 14, 2001. Mohawk Industries, of Westbury, NY, and V.V.S.S. Company, Inc. of Flushing, NY, and their owners admitted they acted as fronts for the Scalamandres and other contractors on public projects, including approximately 46 subcontracts totaling \$26 million let by DOT grantees.

Mohawk received approximately \$2,193,643 from fraudulently obtained MBE road-improvement subcontracts on New York State DOT and New York City DOT projects. Mohawk's owner admitted that from 1997 to 1999, the firm allowed a non-MBE-certified contractor to use Mohawk's name and MBE status to land subcontracts it was not entitled to. Mohawk did no work on the projects.

The projects included replacement of the 65th Place Bridge; work on Smith Street, Gipson Street, Westside Highway, Woodhaven Boulevard, Bayside Highway, Meadowbrook Parkway on Long Island, and Rt. 110 in Huntington, NY; and bridgework on the Long Island Expressway in Queens and at Holbrook Road and William Floyd Parkway on Long Island. http://www.oig.dot.gov/item_details.php?item=621

Front Company/Pass Through: Case Example **Hardrives Paving & Construction**

August 27, 2002

James R. Sabatine, owner of Hardrives Paving & Construction, Inc., Youngstown, OH, was sentenced in U.S. District Court in Cleveland to 5 months in jail, 2 years' supervised release, \$18,832 in restitution, and a \$7,700 fine on racketeering charges, including bribery and mail fraud. Sabatine pleaded guilty in August 2001 to bribing Mahoning County, Ohio, officials in order to maintain favored status in winning paving contracts.

He also admitted to submitting fraudulent invoices for asphalt that was never applied. Together with Hardrives foreman Christ Miner, Sabatine conspired with Renee Smith, owner of Tone Crack Seal & Supply, of Youngstown, in a scheme where Tone Crack served as the minority front company through which Hardrives won contracts to do work.

On April 29, 2002, Miner was ordered to pay \$8,750 in restitution and spend 1 year on probation, and Smith was sentenced to 5 months in jail, 2 years' supervised release, and a \$400 fine. OIG investigated the case with the FBI and the Department of Labor OIG. http://www.oig.dot.gov/item_details.php?item=862

False Eligibility: Case Example

Tri-Gems Builders, Inc.

January 2000

Two officers of a New Jersey construction firm pleaded guilty and were sentenced for making false claims to land a Coast Guard construction contract. Gothrie Short Jr., president of Tri-Gems Builders, Inc., and Jason D. Griffin, another officer of the firm, were accused of misrepresenting their profits and claiming their employees would perform sufficient work as required by the Minority Enterprise Development Program in order to be involved in the \$1.8 million renovation and expansion of a Coast Guard child-care center in Cape May, NJ. Short and Griffin were each fined \$10,000 and sentenced to 6 months home confinement. Short also paid \$210,000 in restitution to the Coast Guard, and Griffin paid \$105,000.

APPENDIX A: Chronological List of DBE Cases

Electric Supply Company and President Plead Guilty to Falsifying DBE Applications

September 9, 2003

L&K Electric Supply Company of Birmingham, AL, and company president Adriene Balton pleaded guilty in U.S. District Court in Norfolk, VA, to falsifying four applications submitted to the Virginia Department of Transportation for disadvantaged business enterprise (DBE) certification. Balton admitted she and her company committed fraud in order to win a \$14.7 million contract that counts toward the State's DBE contract goal for socially and economically disadvantaged firms. Balton answered "no" in response to an application question asking whether she or her company had previously been denied DBE certification. Investigation found L&K had been denied DBE status by Louisiana, Maryland, and Florida for a variety of reasons, including that L&K's business affiliation with another company exceeded the gross revenue limit and Balton did not exercise day-to-day control over business operations.

<http://www.usdoj.gov/usao/vae/Pressreleases/balton091103.pdf>

Ohio Highway Contractor and Employees Jailed

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Together with Hardrives foreman Christ Miner, Sabatine conspired with Renee Smith, owner of Tone Crack Seal & Supply of Youngstown, in a scheme where Tone Crack served as the minority front company through which Hardrives won contracts to do work. The fraudulent setup enabled Smith to obtain four highway paving contracts worth more than \$515,000 that had been set aside for minority businesses. Smith was sentenced to 5 months in jail, 2 years supervised release, and a \$400 fine on August 12, 2002. On April 29, 2002, Miner was ordered to pay \$8,750 in restitution and spend 1 year on probation. OIG investigated the case with the FBI and the Department of Labor OIG.

http://www.oig.dot.gov/item_details.php?item=862

http://www.oig.dot.gov/item_details.php?item=854

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million for their role in a kickback scam. The projects included rehabilitation of the Brighton Beach subway line contracted through the New York City Transit Authority; and construction on the Northernstate & Meadowbrook Parkway Interchange, Ronkonkoma Station of the Long Island Railroad, and the Long Island Expressway & Seaford Oyster Bay Expressway, all let through the New York State DOT.

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The Federal Highway Administration subsequently debarred the Scalamandre brothers and three construction firms they own on June 7, 2003 for 3 years. The firms are Peter Scalamandre & Sons, Inc., Scalco Construction Corp., and Sea Crest Construction Corp., all of Freeport, NY. http://www.oig.dot.gov/item_details.php?item=817

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Tarand Transport, Inc. of Land O'Lakes, FL, and J.D. Miller & Sons of Thonotosassa, FL, had been paying a \$500-a-month kickback to Howard L. Glover of Mulberry, FL, for allowing them to position his business, H.J. Trucking, as a minority front company. With the use of the front company, Tarand and Miller fraudulently won work set aside for a disadvantaged minority business on a state subcontract funded by the Federal Highway Administration. Glover did not perform any of the work, which involved hauling material for an Interstate 4 highway construction project in Hillsborough County, FL near Tampa from 1996 to 1998; rather, it was done by Tarand Transport and J.D. Miller & Sons.

On December 7, 2001, Tarand Transport was fined \$60,000. Company owners Randy W. and Tammy J. Blankenship received fines of \$12,500 each and 28-month jail terms. Glover was sentenced to 14 months in prison and fined \$5,000.
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http://www.oig.dot.gov/item_details.php?item=579

OIG investigated this case with the Florida Department of Transportation's OIG and the Florida Department of Law Enforcement.
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Contractor Ordered to Pay \$1.2 Million In Damages Under False Claims Act
February 6, 2001

TDC Management Corp., of Washington D.C., and its president, T. Conrad Monts were ordered by an U.S. District Court judge in Washington, D.C. to pay \$1,285,198 in damages for violating the False Claims Act. TDC had been hired by FTA to develop a bond program to assist disadvantaged business enterprises in securing bonding for FTA-assisted contracts. TDC violated the False Claims Act by misrepresenting in monthly progress reports its progress in implementing the bonding program. OIG investigated this case with assistance from the FTA.
http://www.oig.dot.gov/item_details.php?item=472

Illinois DBE Contractors Ordered to Repay Government \$52,250 and Fined \$22,826
August 11, 2000

A U.S. District Court judge in Springfield, IL, sentenced Paul Carey, co-owner of MTA, Inc., and Nancy Boyer, president of Hsiong Associates, for defrauding the FHWA DBE program. In order to meet FHWA's DBE goals in the State of Illinois, MTA, an engineering firm, claimed that it used Hsiong as a minority subcontractor. However, Hsiong employees never performed any services on these highway-construction engineering projects; MTA employees did the work and the time sheets were changed to

reflect that the employees worked for Hsiong. Carey was ordered to pay \$40,000 in restitution to the State of Illinois and fined \$22,826 and 120 hours of community service. Boyer was ordered to pay \$12,250 in restitution, and 120 hours of community service. MTA also paid \$141,446 in restitution so the State of Illinois could recoup the money stolen from the state construction program. OIG and FBI investigated the matter based on a referral from the Illinois Department of Transportation.

Construction Company President Jailed 5 Years in DBE Fraud

June 5, 2000

Kermit Bunn, president of Bunn Construction Company, was sentenced to 5 years imprisonment and an \$18,000 fine—followed by 3 years supervised release—for fraud against the Federal disadvantaged business enterprise program on 5 FHWA-funded subcontract projects. The projects for highway construction work were in Mineral Wells, Clarksburg, Elm Grove, Elkview, and Hancock County, West Virginia. Bunn also was convicted of obstruction of justice in U.S. District Court in Wheeling, WV, for threatening the OIG special agent investigating the case. OIG investigated the case, with the West Virginia Department of Transportation.

Guilty Plea in Minority Business Contract Fraud

May 24, 2000

Mohawk Industries, a certified minority business enterprise (MBE) headquartered in Westbury, NY, pleaded guilty to money-laundering charges in U.S. District Court in Uniondale, NY. Mohawk received approximately \$2,193,643 from fraudulently obtained MBE road-improvement subcontracts on New York State DOT and New York City DOT projects. Mohawk's owner admitted that from 1997 to 1999, the firm allowed a non-MBE-certified contractor to use Mohawk's name and MBE status to land subcontracts it was not entitled to. Mohawk did no work on the projects. The FBI, the IRS, DOT-OIG, DOL-OIG, and state and local OIGs investigated the case.

http://www.oig.dot.gov/item_details.php?item=621

Construction Company Executives Ordered to Pay \$335,000

January 2000

Two officers of a New Jersey construction firm pleaded guilty and were sentenced for making false claims to land a Coast Guard construction contract. Gothrie Short Jr., president of Tri-Gems Builders, Inc., and Jason D. Griffin, another officer of the firm, were accused of misrepresenting their profits and claiming their employees would perform sufficient work as required by the Minority Enterprise Development Program in order to be involved in the \$1.8 million renovation and expansion of a Coast Guard child-care center in Cape May, NJ. Short and Griffin were each fined \$10,000 and sentenced to 6 months home confinement. Short also paid \$210,000 in restitution to the Coast Guard, and Griffin paid \$105,000.

Construction Companies Pay \$715,000 to Settle DBE Fraud Claims

December 1995

Two West Coast construction companies, Peter Kiewit and Sons and General Construction Company, which are involved in federally funded public works projects, agreed to pay \$715,000 in total to settle two lawsuits alleging they used sham minority subcontracting companies in order to qualify under state and local programs for the socially and economically disadvantaged. Kiewit and General admitted they falsely claimed to have used a minority, female-owned company to do work worth nearly \$8 million on a federally funded highway project when, in fact, the minority firm did not actually perform the work. Kiewit paid a \$575,000 fine and General paid a \$140,000 fine. This case was investigated jointly by OIG and EPA.

Appendix B: Detailed OIG Statistics

DBE and Contract and Grant Fraud Cases, FY 1999-03

Contract & Grant Year	DBE Cases Fraud Cases Opened	% DBE Cases of Total Opened	Contract & Grant Fraud Cases
FY 99	47	3	6%
FY 00	39	7	18%
FY 01	68	12	18%
FY 02	57	14	25%
FY 03	74	22	29%
Total:	277	56	20%

Indictments, Convictions, and Financial Recoveries Resulting from DBE Cases, FY 1999-03

Year	Indictments	Convictions	Recoveries
FY 99	5	1	\$0
FY 00	9	4	\$2,269,843
FY 01	10	9	\$33,500
FY 02	10	11	\$6,862,778
FY 03	9	5	\$1,546,783
Total:	40	29	\$10,712,904